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TAGS: [ECON](#) [ENRG](#) [EPET](#) [PGOV](#) [EG](#) [IS](#)  
SUBJECT: EGYPT'S ENERGY STRATEGY, AND CONCERN OVER GAS  
EXPORTS

REF: A. CAIRO 959  
[1](#)B. CAIRO 419  
[1](#)C. CAIRO 1146  
[1](#)D. CAIRO 190  
[1](#)E. AMMAN 1567

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[1](#)1. (SBU) SUMMARY: Determined to satisfy rapid growth in domestic demand and position Egypt as a regional hub for energy distribution, the GOE recently adopted a fifteen year national energy strategy, according to Ibrahim Saleh, special advisor to Finance Minister Yousef Boutros-Ghali and former head of the Egyptian General Petroleum Company (EGPC). He said that Egypt will address the burden posed by energy subsidies by aggressively reducing fuel subsidies for industrial customers while maintaining a safety net for the poor. Saleh asserted that Egypt will not renege on existing long-term natural gas export deals but will not enter into new export arrangements for at least three years in order to reevaluate domestic needs. END SUMMARY.

LOOKING AHEAD: GOE'S FIFTEEN YEAR ENERGY STRATEGY  
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[1](#)2. (SBU) Ibrahim Saleh, special advisor to Finance Minister Yousef Boutros-Ghali and former head of the Egyptian General Petroleum Company (EGPC), briefed econoff on the 2008-2022 national energy strategy on June 25. He said the GOE was driven to develop a long-term strategy to address rapid growth in domestic energy demand from industrial customers and households and in order to restructure the entire energy sector to alleviate the burden of subsidies and to facilitate privatization. The GOE based the strategy on the assumption that the economy would continue to grow at a minimum of 7% per year through 2022.

[1](#)3. (SBU) Under the new national strategy, the GOE revamped the High Energy Council to facilitate coordination between relevant ministries. Through gradual privatization, the GOE intends to pare its role in the energy sector down to that of a regulator. Saleh said that the GOE is trying to make Egypt as attractive as possible to oil and gas producers to increase investment in infrastructure and exploration and to convince producers to sell as much of their product as possible domestically. (Note: Saleh confirmed that natural gas producers are currently paid \$2.65 per MMBTU, well below recent prices in regional trading and the NYMEX average of \$12-13 in June. Industry contacts tell us that due to rising production costs both on and off-shore, they are considering exporting more of their product unless the GOE raises the purchase price. End Note.)

## DEMAND IS GROWING QUICKLY

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14. (SBU) According to the American Chamber of Commerce's Energy Committee, electricity demand rose 30% from the mid-1990's to the present due to population growth and the burgeoning heavy-industry sector. The financial press reported that Egypt produced 8.6 million tons of diesel in 2007 and had to import another 1.6 million to meet demand. AmCham contacts noted that Egypt might have to import natural gas as well within 5 years if demand continues unabated. (Note: The Ministry of Petroleum does not publish statistics on a regularly and has not provided 2007 figures. End Note.)

15. (SBU) Saleh said that Egypt will continue to be a net importer of petroleum products and added that the GOE intends to address the growing gap between production and consumption by developing nuclear energy (Refs C and D) and renewable sources, with a goal of deriving 20% of energy production from renewable sources by 2022. He said that the GOE would face an uphill battle in promoting efficiency and rationalizing the consumption of energy in a society where consumers have long treated oil and gas as inexhaustible and cheap resources.

## GROWING OPPOSITION TO NATURAL GAS EXPORTS

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16. (SBU) Under Egyptian law, natural gas exports are limited to 25% of reserves. While there has consistently been vocal opposition to the Eastern Mediterranean Gas (EMG)

consortium's deal to export gas from Egypt to Israel via the El Arish-Ashkelon pipeline (Ref B), the skyrocketing price of natural gas in world markets has recently led to widespread concern that Egypt's other long-term gas export contracts were disadvantageous. (Note: Egypt negotiated a higher price for an additional billion cubic meters (BCM) of natural gas to Jordan when the original agreement was expanded this spring, per ref E. End Note.) In a recent meeting with CODEL Baird, Minister of Petroleum Samy Fahmy confirmed that the GOE is currently renegotiating its deals with several customers, including Spain and France. On June 30 Fahmy told the press that his goal in revisiting these contracts was to ensure that the GOE obtains a price higher than the cost of production and higher than local prices in Egypt.

17. (SBU) Saleh confirmed that the GOE will honor existing gas export contracts, whose average length is 20 years, but it will not pursue new export deals for the next two-three years to assess its domestic needs. Saleh noted that the GOE did not adequately prepare the public for a gas export deal to Israel and that it needs to develop a better outreach strategy on controversial economic measures. He acknowledged that the GOE is mired in an outdated mindset of central control of energy prices and supply and is slowly adapting itself to the rapid shifts of the natural gas market.

## THE THIRD RAIL OF LOCAL POLITICS: ENERGY SUBSIDIES

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18. (SBU) The GOE devoted over 70 billion LE (just over USD 13 billion) to energy subsidies in 2007, comprising approximately 7% of GDP. The objective of the energy strategy is to maintain the safety net for the poor indefinitely through subsidies on electricity and fuel, and aggressively reduce subsidies for industrial customers in the short-term.

19. (SBU) Saleh said that the GOE and World Bank are developing an energy pricing structure to better target subsidies and intend to submit it to the Prime Minister and cabinet for review by October. He confirmed that the May price hike raised the cost of natural gas to the energy-intensive industries from \$1.00 to approximately \$3.00 per MMBTU. Saleh noted that the GOE purchases gas directly

from local producers and does not incur transport and other hefty charges, therefore it is not compelled to mark up prices for industrial consumers to regional or world levels.

COMMENT

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¶10. (SBU) Per Saleh, the energy strategy was produced by the ruling National Democratic Party's energy committee and was submitted directly to the ministries for implementation after the President's concurrence. While the lack of public and parliamentary consultation is no different from usual procedure, growing public and opposition restiveness about domestic gasoline and diesel prices, natural gas export prices and politically sensitive issues such as gas exports to Israel, may force the GOE to be more transparent about its energy policy and other bread and butter economic issues.  
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